

CITY OF BATON ROUGE - PARISH OF EAST BATON ROUGE, LOUISIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS

As financial management of the City-Parish government, we offer readers of this financial statement an overview and analysis of the financial activities of the City of Baton Rouge, Parish of East Baton Rouge Consolidated Government. This narrative is designed to assist the reader in focusing on significant financial issues, identify changes in the government's financial position, identify any material deviations from the approved budget documents, and identify individual fund issues or concerns.

The Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes, and currently known facts. It should be read in conjunction with the Letter of Transmittal and the financial statements that begin with Exhibit A-1.

FINANCIAL HIGHLIGHTS

- Assets of the City-Parish primary government exceeded its liabilities at the close of the most recent fiscal year by \$877.1 million (*net assets*). Of this amount, \$83.7 million (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The primary government's total net assets increased by \$82.8 million during 2002. Governmental activities' net assets increased \$41.5 million during 2002, primarily as a result of the increase in net capital assets (\$15.8 million), the reduction of prior-year long-term debt (\$6.3 million), growth in the parish-wide property tax rolls (\$3.1 million), an increase in sales and use taxes (\$4.2 million), additional grant revenues (\$5.2 million), increases in charges for services (\$3.3 million), and other miscellaneous asset increases (\$3.6 million). Additional sewer user fees (\$7.6 million), an increase in sales and use taxes (\$0.8 million), landfill user charges (\$0.3 million), contributions from the federal and state governments, subdivision developers, and impact fees (\$25.6 million), and other miscellaneous increases (\$7.0 million) accounted for the rise in net assets in business-type activities.
- As of the close of the current fiscal year, the primary government's governmental funds reported combined ending fund balances of \$283.9 million, an increase of \$15.1 million in comparison with the prior year. Approximately 40% of the fund balances, \$112.7 million, is *available for spending* at the City-Parish's discretion (*unreserved fund balance*).
- At December 31, 2002, unreserved fund balance for the General Fund was \$50.11 million, or 26% of total 2002 General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

With the implementation of Governmental Accounting Standards Board Statement 34, a government's presentation of financial statements has been greatly changed. The new statements focus on the government as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the reader to address relevant questions, broaden a basis for comparison (year to year or government to government) and should enhance the City-Parish's accountability.

Government-Wide Financial Statements

The government-wide financial statements (see Exhibits A-1 and A-2) are designed to be similar to those of private sector businesses in that all governmental and business-type activities are consolidated into columns which add to a total for the primary government. The statements combine all governmental funds' current financial resources with capital assets and long-term obligations. Donated infrastructure for the years 1980 - 2000 is expected to be included by 2005. Also presented in the government-wide financial statements is a total column for the business-type activities of the primary government. Component units are separate legal governmental entities to which the City-Parish Metropolitan Council may

CITY OF BATON ROUGE - PARISH OF EAST BATON ROUGE, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

be obligated to provide financial assistance and are presented as a separate column in the government-wide statements and as individual activities in the Fund Financial Statements. All City-Parish component unit agencies except for four fire protection districts (See exhibits H-1 through H-8) issue separate independently audited financial statements.

The Statement of Net Assets (Exhibit A-1) presents information on all the government's assets and liabilities, with the difference between the two reported as net assets. Over time, changes in net assets may serve as a useful indicator of whether the financial position of the City-Parish is improving or deteriorating.

The Statement of Activities (Exhibit A-2) presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods. For example, uncollected taxes and earned but unused vacation leave result in cash flows for future periods. The focus of the Statement of Activities is on both the gross and net cost of various activities which are funded by the government's general tax and other revenues. This is intended to summarize information and simplify the user's analysis of the cost of various governmental services and/or subsidy to various business-type activities and component units.

The governmental activities reflect the City-Parish's basic services including public safety (fire, law enforcement, emergency medical services, emergency preparedness, communications), general government services (executive, legislative, judicial), health and welfare (mosquito control, animal control), sanitation (garbage and trash collection), transportation (street and road maintenance), culture and recreation (library), conservation and development (social programs), and intergovernmental. These services are financed primarily with taxes. The business-type activities reflect private sector type operations (sewer utilities, airport, parking facility, civic center, solid waste disposal facility) where the fee for service typically covers all or most of the cost of operations, including depreciation.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. The focus is now on major funds, rather than generic fund types.

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. The Governmental Major Fund (see Exhibits A-3 through A-7) presentation is presented on a modified accrual basis. This is the manner in which the financial plan is typically developed excluding certain timing differences between the budget basis and the generally accepted accounting principle (GAAP) basis. Unlike the government-wide financial statements, governmental fund financial statements focus on near-term outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements. The City-Parish has presented the General Fund and the Capital Projects Fund as major funds. All non-major governmental funds are presented in one column, titled Other Governmental Funds. Combining financial statements of the non-major funds can be found in the Combining and Individual Fund Statements and Schedules that follow the basic financial statements.

Proprietary Funds encompass both enterprise and internal service funds on the fund financial statements. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City-Parish's various functions. The government uses internal service funds to account for its equipment rental and replacement program and the Central Garage fleet maintenance and fuel activities. Because both of these services predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities section in the government-wide financial statements. Combining statements of the non-major individual enterprise and internal service funds can be found in the Combining and Individual Fund Statements following the basic financial statements.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fund financial statements also allow the City-Parish to present *fiduciary funds*. While these funds represent a trust responsibility, these assets are restricted in purpose and do not represent discretionary assets of the government. Therefore, these assets are not presented as part of the government-wide financial statements.

While the total column on the business-type fund financial statements for enterprise funds (see Exhibit A-8) is the same as the business-type column at the government-wide financial statement, the governmental major funds total column requires a reconciliation because of the different measurement focus which is reflected on the page following each statement (see Exhibits A-4 and A-6). The flow of current financial resources will reflect bond proceeds and interfund transfers as other financing sources and will show capital expenditures and bond principal payments as expenditures. The reconciliation will eliminate these transactions and incorporate the capital assets and long-term obligations into the Governmental Activities column in the government-wide statements.

Capital Assets

General capital assets include land, improvements to land, easements, buildings, vehicles, machinery and equipment, infrastructure, and all other tangible assets that are used in operations and that have initial useful lives greater than two years and exceed the government's capitalization threshold (see Note 6, Exhibit A-15). The City-Parish has capitalized all purchased general capital assets. Donated infrastructure assets (those placed into the government's maintenance through contributions from private development) have not been capitalized in this financial presentation for the years 1980 through 2000. Donated governmental activities infrastructure accepted into City-Parish maintenance during years 2001 and 2002 have been capitalized. Governmental Accounting Standards Board Statement No. 34 allows the City-Parish a transitional period for reporting infrastructure assets up to June 15, 2005. The government plans to record all material donated assets within the next two fiscal years. Prior to the implementation of the new reporting model, no depreciation was charged on general capital assets. Accumulated depreciation was recorded for the first time based on the date of acquisition and the life span of the asset in the 2001 financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are a required part of the basic financial statements and can be found in Exhibit A-15 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City-Parish's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on Exhibits B-1 through B-3 of this report.

The combining statements referred to earlier in connection with the non-major governmental and proprietary funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules include Exhibits C-1 through H-8 of the report.

Certain supplementary financial information can be found in Exhibits I-1 and I-2 of this report. These schedules and the Statistical Section (Exhibits J-1 through J-17) are included for additional information and analysis and do not constitute a part of the audited financial statements.

Also included in the report is the Office of Management and Budget A-133 Single Audit auditor reports, findings, and schedules, including the OMB Data Collection Form. This information can be found under the Single Audit section.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

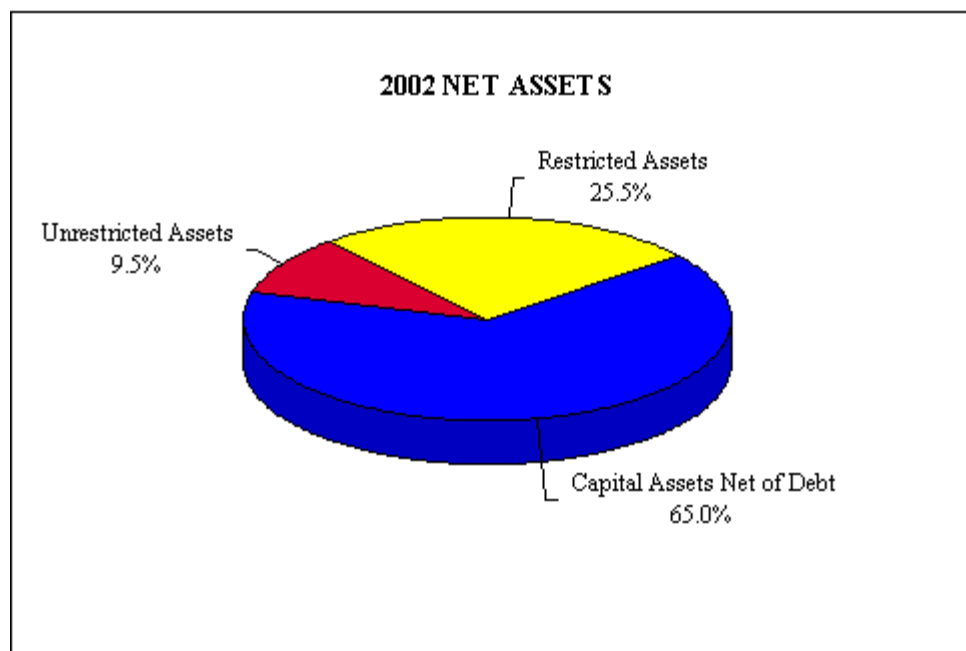
Government-Wide Financial Analysis

The following table reflects the condensed Statement of Net Assets for 2002, with comparative figures from 2001:

City of Baton Rouge, Parish of East Baton Rouge
Condensed Statement of Net Assets
December 31, 2002 & 2001
(in millions)

	Governmental Activities		Business- Type Activities		Total	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Assets:						
Current and Other Assets	\$350.2	\$325.4	\$ 93.8	\$ 70.4	\$ 444.0	\$ 395.8
Restricted Assets	--	--	132.6	130.1	132.6	130.1
Capital Assets	<u>325.5</u>	<u>309.7</u>	<u>563.9</u>	<u>552.8</u>	<u>889.4</u>	<u>862.5</u>
Total Assets	<u>675.7</u>	<u>635.1</u>	<u>790.3</u>	<u>753.3</u>	<u>\$1,466.0</u>	<u>\$1,388.4</u>
Liabilities:						
Current Liabilities	53.3	48.0	12.5	19.0	65.8	67.0
Long-Term Liabilities	<u>205.1</u>	<u>211.3</u>	<u>318.0</u>	<u>315.8</u>	<u>523.1</u>	<u>527.1</u>
Total Liabilities	<u>258.4</u>	<u>259.3</u>	<u>330.5</u>	<u>334.8</u>	<u>588.9</u>	<u>594.1</u>
Net Assets:						
Invested in Capital Assets Net of Debt	262.0	241.9	308.3	286.3	570.3	528.2
Restricted	151.5	139.2	71.6	61.9	223.1	201.1
Unrestricted	<u>3.8</u>	<u>(5.3)</u>	<u>79.9</u>	<u>70.3</u>	<u>83.7</u>	<u>65.0</u>
Total Net Assets	<u>\$417.3</u>	<u>\$375.8</u>	<u>\$459.8</u>	<u>\$418.5</u>	<u>\$ 877.1</u>	<u>\$ 794.3</u>

For more detailed information see Exhibit A-1, the Statement of Net Assets.



CITY OF BATON ROUGE - PARISH OF EAST BATON ROUGE, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Approximately 65.0% (\$570.3 million) of the City-Parish's net assets as of December 31, 2002, reflects the government's investment in capital assets (land, buildings, infrastructure, machinery and equipment) less any related outstanding debt used to acquire those assets. The City-Parish government uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Another 25.5% (\$223.1 million) of the government's net assets is subject to external restrictions on how those assets may be used, such as property tax approved by the electorate for specific purposes. The remaining 9.5% of net assets, referred to as *unrestricted* (\$83.7 million), may be used to meet the ongoing obligations of the government to citizens and creditors.

The table below provides a summary of the changes in net assets for the year ended December 31, 2002, with comparative figures from 2001:

City of Baton Rouge, Parish of East Baton Rouge
Condensed Statement of Changes in Net Assets
For the Years Ended December 31, 2002 & 2001
(in millions)

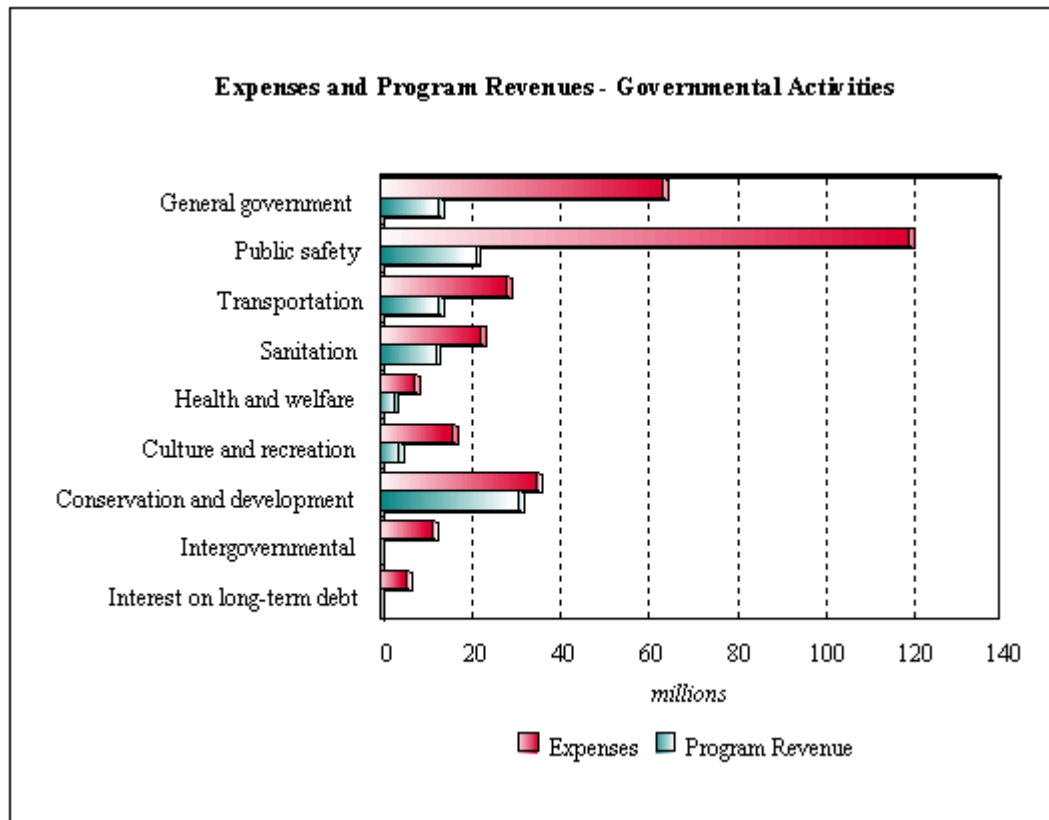
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Revenues:						
Program Revenue:						
Charges for Services	\$ 45.1	\$ 41.8	\$ 68.7	\$ 60.7	\$113.8	\$102.5
Operating Grants and Contributions	38.2	33.4	0.4	0.4	38.6	33.8
Capital Grants and Contributions	18.2	16.0	25.6	20.9	43.8	36.9
General Revenues:						
Sales Taxes	154.9	150.7	29.9	29.8	184.8	180.5
Other Taxes	98.0	96.0	--	--	98.0	96.0
Grants and Contributions Not Restricted to Specific Programs	4.1	4.8	--	--	4.1	4.8
Other	<u>5.7</u>	<u>10.9</u>	<u>4.3</u>	<u>6.1</u>	<u>10.0</u>	<u>17.0</u>
Total Revenues	<u>364.2</u>	<u>353.6</u>	<u>128.9</u>	<u>117.9</u>	<u>493.1</u>	<u>471.5</u>
Expenses:						
General Government	64.1	54.9	0.8	0.8	64.9	55.7
Public Safety	120.2	118.7	--	--	120.2	118.7
Transportation	29.1	42.9	12.2	11.0	41.3	53.9
Sanitation	23.1	22.8	78.8	77.6	101.9	100.4
Health and Welfare	8.1	6.8	--	--	8.1	6.8
Culture and Recreation	16.9	16.0	3.3	3.4	20.2	19.4
Conservation and Development	35.5	29.5	--	--	35.5	29.5
Intergovernmental	12.1	11.9	--	--	12.1	11.9
Interest on Long-Term Debt	<u>6.1</u>	<u>6.9</u>	<u>--</u>	<u>--</u>	<u>6.1</u>	<u>6.9</u>
Total Expenses	<u>315.2</u>	<u>310.4</u>	<u>95.1</u>	<u>92.8</u>	<u>410.3</u>	<u>403.2</u>
Increase in Net Assets Before Transfers	49.0	43.2	33.8	25.1	82.8	68.3
Transfers	<u>(7.5)</u>	<u>(5.6)</u>	<u>7.5</u>	<u>5.6</u>	<u>--</u>	<u>--</u>
Increase In Net Assets	41.5	37.6	41.3	30.7	82.8	68.3
Net Assets, January 1	<u>375.8</u>	<u>338.2</u>	<u>418.5</u>	<u>387.8</u>	<u>794.3</u>	<u>726.0</u>
Net Assets, December 31	<u>\$417.3</u>	<u>\$375.8</u>	<u>\$459.8</u>	<u>\$418.5</u>	<u>\$877.1</u>	<u>\$794.3</u>

CITY OF BATON ROUGE - PARISH OF EAST BATON ROUGE, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

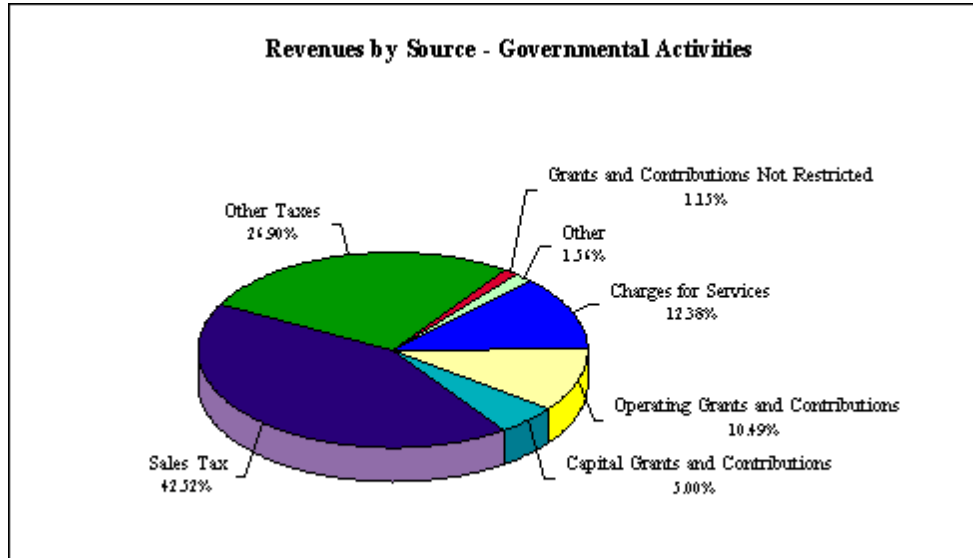
The government's net assets increased \$82.8 million during the current fiscal year.

Governmental Activities net assets increased \$41.5 million in 2002, primarily due to:

- (1) An increase in net capital assets of approximately \$15.8 million capitalized during the year from the following external sources: State capital grant for the new planetarium (\$3.1 million), donated infrastructure from developers (\$4.1 million), and capital grants from the State of Louisiana for transportation purposes (approximately \$8.6 million).
- (2) An additional \$4.2 million in sales and use tax revenues due to growth in the economy.
- (3) An additional \$3.1 million in property taxes due to growth of the tax rolls.
- (4) A net decrease of approximately \$6.3 million in long-term debt caused by a reduction in the estimate for long-term claims and judgments.
- (5) Additional grant revenues of approximately \$5.2 million in the following programs: Headstart (\$1.0 million), Housing and Urban Development rehabilitation (\$2.0 million), weatherization grants (\$1.0 million), and Workforce Investment Act youth programs and dislocated workers (\$1.2 million).
- (6) An increase in charges for services revenues of \$3.3 million for fiscal management fees, in-kind services for the Headstart grant, city court civil fees, enhanced 911 revenues, garbage fees, and emergency medical third-party billings. Other charges for service increases included the lease of the pistol range and private donations for capital improvements.
- (7) Other miscellaneous increases of \$3.6 million.

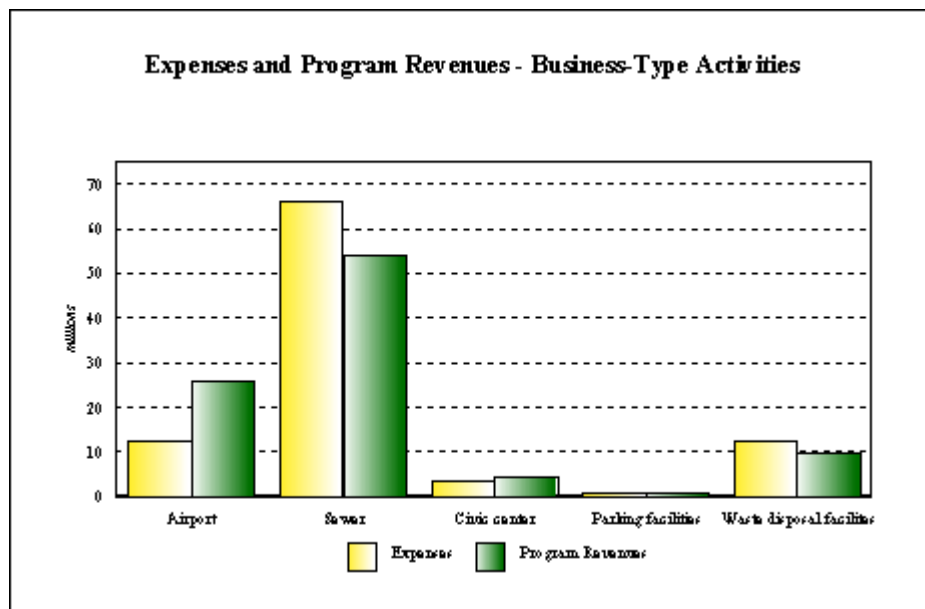


**CITY OF BATON ROUGE - PARISH OF EAST BATON ROUGE, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

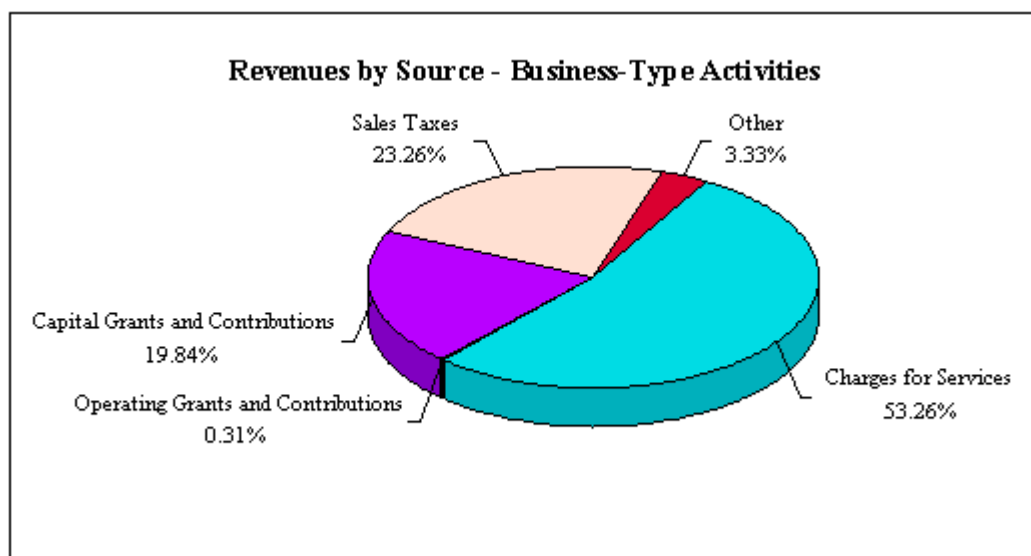


Business Type Activities' net assets increased by \$41.3 million in 2002, primarily due to:

- (1) A 31% increase in the sewer user fee initiated by the Metropolitan Council on January 1, 2002, generating an additional \$7.6 million.
- (2) Increased revenue of \$0.3 million tipping fee charges generated at the government-owned solid waste facility.
- (3) An additional \$0.8 million in sales and use tax revenues due to growth in the economy.
- (4) Enterprise Fund contributions from external parties of \$25.6 million from the following sources: Airport grants from federal and state agencies (\$17.1 million), sewer fund grants from federal and state agencies (\$1.3 million), state capital outlay funds for the Riverside Centroplex (\$2.9 million), contributions of infrastructure from private developers to the sewerage system (\$0.9 million), and sewer impact fees (\$3.4 million).
- (5) Other miscellaneous increases in net assets of \$7.0 million.



CITY OF BATON ROUGE - PARISH OF EAST BATON ROUGE, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)



Financial Analysis of the Government's Funds

As noted earlier, the City-Parish uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds: The focus of the City-Parish's governmental funds is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City-Parish's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the primary government's governmental funds reported combined ending fund balances of \$283.9 million, an increase of \$15.1 million in comparison with the prior year. Approximately 40% of this total amount (\$112.7 million) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to: (1) liquidation of contracts and purchase orders of the prior period (\$34.3 million), (2) payment of debt service (\$28.0 million), (3) loans to low-income recipients (\$6.8 million), (4) legal appropriations in the 2003 operating budget (\$11.4 million), (5) continuing projects carried forward to the next fiscal year (\$90.0 million), or (6) investment of inventories at December 31, 2002 (\$0.7 million).

The General Fund is the chief operating fund of the Consolidated Government of the City of Baton Rouge, Parish of East Baton Rouge, Louisiana. At the end of the current fiscal year, unreserved and undesignated fund balance of the General Fund was \$7.2 million, while total fund balance was \$68.9 million. Compared with total fund balance of \$73.5 million at the end of 2001, fund balance fell approximately \$4.6 million during 2002. The decrease in fund balance was primarily a result of a loss of \$2.1 million in the self-insured employee health program and the payment of a liability judgment of \$2.5 million.

Fund Balance in the Capital Projects Fund rose \$16 million in 2002. The increase in fund balance represents earmarked capital funds that have not been spent at year end for departmental capital outlay projects of approximately \$6.2 million, and on-going projects earmarked in ½ percent sales tax road funds for major improvement to public streets.

CITY OF BATON ROUGE - PARISH OF EAST BATON ROUGE, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Proprietary Funds: The City-Parish's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Greater Baton Rouge Airport Authority Fund at December 31, 2002, reflected a negative \$3.8 million since most of this fund's assets are restricted capital assets or restricted cash from the federal government that must be spent on airport improvements. For operating purposes, the Authority has an airport-airline lease agreement, whereby all surpluses and shortages in operating cash at year-end, exclusive of certain capital improvements, are shared with the airlines through increased or decreased landing fees in subsequent years. This fund is the only fund in the City-Parish system that is self-supporting from program revenues.

Unrestricted net assets of the Comprehensive Sewerage System Fund was \$77.4 million at December 31, 2002. This fund encompasses all assets associated with sewerage operations, maintenance, and capital improvements held by the City, the Parish, the Consolidated Sewerage District, and the East Baton Rouge Parish Sewerage Commission. Restricted assets total over \$192.0 million, reflecting the heavy investment in capital assets and construction cash funding the previously mentioned ongoing *Sanitary Sewer Overflow Corrective Action Program*. This program is a result of the U. S. Environmental Protection Agency's mandate for the City-Parish to rehabilitate its sewerage system to eliminate infiltration of rainwater drainage into the system.

General Fund Budgetary Highlights

The total difference between the original General Fund budget and the final amended budget was an increase in appropriations of \$9.8 million. Supplemental appropriations totaling \$9.8 million were approved during the year by the Metropolitan Council for various programs summarized as follows: (1) Settlement of general liability, auto, police and personnel claims and judgments (\$ 4.0 million), (2) drainage, road and building projects (\$4.2 million), (3) replacement of police capital equipment and additional police overtime (\$0.5 million), (4) supplementary departmental operating expenditures (\$0.2 million), (5) increases in the Local Services Agreement between the Parish and the City (\$0.9 million).

Material differences between actual results and final amended budgeted amounts in the General Fund are as follows:

- Growth within both the city and the parish increased property tax collections over the budgeted amount by approximately \$0.5 million.
- Sales and use taxes were collected in excess of budget by approximately \$4.7 million. The original General Fund budget used a zero percent growth rate and these taxes grew by 2.7 percent during 2002.
- Gaming admissions taxes were collected in excess of budget by approximately \$4.0 million. The administration's policy on these taxes is to appropriate gaming revenues only after they are collected and use them primarily for non-recurring expenditures.
- Gross receipts business taxes were collected in excess of budget by approximately \$1.0 million. These taxes are based on the consumption of utilities and are very cyclical in nature. Conservative estimates are used for this revenue in the General Fund budget.
- Fiscal management fees collected on the government-wide cost allocation plan and the auction facility were \$0.6 million greater than budgeted, and the Police Department generated \$0.7 million in miscellaneous revenues over the estimated amount.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- The risk management budget was overspent by approximately \$1.5 million when actual claims for employee benefits were higher than projected in the operating budget.
- Approximately \$7.7 million of appropriations for departmental budgets were not spent during 2002. The Plan of Government allows for the carry-forward of funds that are allocated to one-time projects to subsequent years. These appropriations carried forward, in the amount of \$6.9 million, are listed on the balance sheet as “reserved for continuing projects”. The majority of these funds are appropriated to replace police equipment, upgrade information services network systems, and provide funds for public works projects such as drainage and street improvements.

Capital Asset and Debt Administration

Capital Assets: The City of Baton Rouge, Parish of East Baton Rouge Consolidated Government's investment in capital assets for its governmental and business type activities as of December 31, 2002, amounts to \$889.4 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, airport facilities, parking facilities, a landfill, wastewater treatment facilities, roads, highways, bridges, and drainage systems. The total increase in the City-Parish's investment in capital assets for the current fiscal year was \$26.9 million, a 4.9% increase for governmental activities and a 2.0% increase for business-type activities.

Major capital asset events during the current fiscal year included the following:

- Opening and dedication of the Central branch of the Library (\$1.0 million).
- Substantial completion of the Irene W. Pennington Planetarium and Space Museum (\$3.3 million).
- Completion of the Bluebonnet Road realignment from Interstate 10 to Airline Highway (\$5 million).
- Rehabilitation of Tiger Bend Road (\$1.8 million).
- Renovations and improvements to the Airport terminal building and other Airport improvements (\$15.2 million).
- Capital improvements to the sewerage system, including upgrades to treatment plants and rehabilitation of major sewer lines (\$10.2 million).

CITY OF BATON ROUGE - PARISH OF EAST BATON ROUGE, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

City of Baton Rouge, Parish of East Baton Rouge
Capital Assets
(Net of Depreciation)
December 31, 2002 & 2001
(in millions)

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Land	\$ 70.7	\$ 68.3	\$ 69.7	\$ 64.5	\$140.4	\$132.8
Buildings	83.8	75.9	65.5	61.2	149.3	137.1
Improvements Other Than Buildings and Infrastructure	133.3	113.9	409.6	415.4	542.9	529.3
Machinery and Equipment	19.9	21.2	2.9	3.0	22.8	24.2
Construction Work-In-Progress	<u>17.8</u>	<u>30.4</u>	<u>16.2</u>	<u>8.7</u>	<u>34.0</u>	<u>39.1</u>
Total	<u>\$325.5</u>	<u>\$309.7</u>	<u>\$563.9</u>	<u>\$552.8</u>	<u>\$889.4</u>	<u>\$862.5</u>

Additional information on the City-Parish's capital assets can be found in Note 6, Exhibit A-15 of this report.

Long-Term Debt: At the end of the current fiscal year, the City-Parish had total bonded debt outstanding of \$461.0 million. Of this amount, \$77.8 million comprises debt backed by the full faith and credit of the government. The remainder of the debt represents bonds secured solely by specified revenue sources such as the general sales tax of the General Fund. There are no general obligation bonds outstanding for the City of Baton Rouge nor the Parish of East Baton Rouge at the end of the fiscal year.

City of Baton Rouge, Parish of East Baton Rouge
Summary of Excess Revenue and Revenue Bonds
December 31, 2002 & 2001
(in millions)

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Excess Revenue Contracts, Loans and Notes	\$ 77.8	\$ 76.9	\$ 4.9	\$ 1.2	\$ 82.7	\$ 78.1
Sales Tax Revenue Bonds	<u>75.7</u>	<u>79.5</u>	<u>302.6</u>	<u>315.5</u>	<u>378.3</u>	<u>395.0</u>
Total All Bonds, Contracts, Loans and Notes	<u>\$153.5</u>	<u>\$156.4</u>	<u>\$307.5</u>	<u>\$316.7</u>	<u>\$461.0</u>	<u>\$473.1</u>

The City-Parish issued an additional \$77.3 million in bonded debt during the year.

On May 17, 2002, the City of Baton Rouge issued variable rate taxable bonds in the amount of \$25,900,000, to refund one-third of the MPERS Note and to retire \$1,840,463 of an outstanding legal judgment. These bonds bear interest at a weekly rate as determined by the remarketing agent. The weekly rate is the lowest rate of interest which, in the judgment of the remarketing agent, would cause the bonds to have a market value equal to the principal amount plus accrued interest, under prevailing market conditions. Under no circumstances shall the weekly rate exceed the maximum rate of 18%. The bonds, at the discretion of the issuer, are subject to a conversion to a fixed rate or a short-term rate. As of December 31, 2002, the variable rate bonds bore a weekly interest rate of 1.47%. These variable rate bonds were converted to a fixed rate in March 2003.

CITY OF BATON ROUGE - PARISH OF EAST BATON ROUGE, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

On October 1, 2002, the City of Baton Rouge issued \$47,550,000 in fixed-rate taxable bonds with a true interest cost (TIC) of 5.73% to refund the remaining two-thirds of the MPERS note. Additional details of these current-year refundings are included in Note 10 of the Notes to Financial Statements.

In 2002, the City of Baton Rouge received \$3,750,633 of additional long-term loan proceeds from the Louisiana Community Development Authority to provide funds to the Greater Baton Rouge Airport District in connection with their Terminal Development Program. Although total loan authorization is \$9,000,000, only \$4,936,905 has been loaned to the City as of December 31, 2002. Funds are drawn down as expenses are incurred on airport projects. The loan is expected to be repaid over a twenty-eight year term.

As of December 31, 2002, City-Parish bonds are rated by three of the major rating services as follows:

	<u>Underlying Ratings</u>			<u>Insured Ratings</u>		
	<u>Moody's</u> <u>Investors</u> <u>Service</u>	<u>Standard</u> <u>and Poor's</u>	<u>Fitch</u> <u>Investors</u>	<u>Moody's</u> <u>Investors</u> <u>Service</u>	<u>Standard</u> <u>and Poor's</u>	<u>Fitch</u> <u>Investors</u>
City of Baton Rouge (2%) Sales Tax Revenue Bonds	A1	AA-	AA-	Aaa	AAA	AAA
Parish of East Baton Rouge (2%) Sales Tax Revenue Bonds	A1	AA-	AA-	Aaa	AAA	AAA
Parish of East Baton Rouge Sewer Improvement (½%) Sales Tax Revenue Bonds	A3	A	A	Aaa	AAA	AAA

Additional information on debt administration can be found in Note 10 of the Notes to the Financial Statements.

Computation of legal debt margin for general obligation bonds is as follows:

Governing Authority: City of Baton Rouge

Ad valorem taxes:

Assessed valuation, 2002 tax rolls \$1,153,809,550

Debt limit: 10% of assessed valuation (for any one purpose) \$ 115,380,955

Debt limit: 15% of assessed valuation (for sewerage purposes) 173,071,432

Debt limit: 35% of assessed valuation (aggregate, all purposes) 403,833,342

There are no outstanding bonds secured by ad valorem taxes of the City of Baton Rouge at this time.

Governing Authority: Parish of East Baton Rouge

Ad valorem taxes:

Assessed valuation, 2002 tax rolls \$2,533,605,400

Debt limit: 10% of assessed valuation (for any one purpose) \$ 253,360,540

Debt limit: 15% of assessed valuation (for sewerage purposes) 380,040,810

There are no outstanding bonds secured by ad valorem taxes of the Parish of East Baton Rouge at this time.

CITY OF BATON ROUGE - PARISH OF EAST BATON ROUGE, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Governing Authority: East Baton Rouge Sewerage Commission

Ad valorem taxes:

Assessed valuation, 2002 tax rolls	<u>\$2,533,605,400</u>
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Debt limit: 15% of assessed valuation	\$ 380,040,810
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There are no outstanding bonds secured by ad valorem taxes of the East Baton Rouge Sewerage Commission at this time.

The Louisiana Constitution gives East Baton Rouge Parish, any municipal corporation in the parish, and any sewerage district in the parish the power to incur debt and issue bonds for sewerage purposes up to a maximum of 15% of the assessed valuation of the taxable property in such subdivision. Louisiana Revised Statutes limit the parish's bonded debt for other purposes to 10% of the assessed valuation of the taxable property for one purpose and 35% for all purposes.

Excess revenue contracts, loans, and notes are secured by the general property tax levied for operation of the General Fund. They are payable through excess revenues through the General Fund budget. The debt obligations are issued on the authority of the Metropolitan Council and do not require a referendum from taxpayers.

Economic Factors and Next Year's Budget and Rates

The City-Parish's General Fund receives approximately 50% of its revenues from the 2% general sales and use tax levied by the City of Baton Rouge or the Parish of East Baton Rouge; therefore, economic indicators are very important in forming the General Fund budget estimates. Revenue assumptions are reviewed by Dr. James A. Richardson, John Rhea Alumni Professor of Economics at Louisiana State University, and Dr. Loren C. Scott, Professor Emeritus in the Department of Economics at Louisiana State University. In their annual report of October 2002, they stated, *"The uncertainties of the national economy certainly extend to the Louisiana economy and the Baton Rouge economy. We believe that this requires extremely prudent budgeting. The Baton Rouge economy experienced almost no growth in employment in 2001 and is estimated to grow just over 1 percent in 2002. This is very unusual for Baton Rouge. The Louisiana Economic forecast is projecting that employment growth in Baton Rouge for the year 2003 will be 1.3 percent, a rate that is considerably lower than the growth Baton Rouge experienced in the 1990's. The Louisiana economy and the Baton Rouge economy will be affected by any change in the direction of the national economy. Based on our economic projections for the rest of this year and 2003 and the general uncertainties that are present in the global and national economies at this time, we believe that the City-Parish government would be prudent in projecting its sales tax revenues for 2003 to be in the range of 1 percent to 2 percent above what it expects to receive in 2002."* The City-Parish government took the advice of these economists and prepared a 2003 operating budget with a one percent projected growth rate for sales tax revenues.

Requests For Information

This financial report is designed to provide a general overview of the finances of the City of Baton Rouge, Parish of East Baton Rouge, Louisiana, for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Department of Finance, Accounting Division, P.O. Box 1471, Baton Rouge, Louisiana, 70821-1471.

